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ABSTRACT

Two Oregon schools districts that have been effective in managing their resources are Reedsport, a smaller district and the subject of part 1 of this bulletin; and Beaverton, one of the largest districts in the state, the focus of part 2. The Reedsport district plans the use of its funds based on a goal-setting process in the areas of instruction, finance, and maintenance. Cash flow projections, increased revenue through investment, self-supporting lunch programs, and contracts for transportation and swimming pool management are among the successful fiscal management strategies initiated by the district. The Beaverton school district uses its scale of operations to be more competitive when purchasing. Cost control is integrated into the overall management scheme. Procedures to operate support programs with greater cost effectiveness have been developed in food, transportation, and custodial services. Self-insuring risk management and insurance, energy management, and intergovernmental cooperation are other measures that have increased cost effectiveness in the district. References and persons interviewed are listed at the conclusion of the bulletin. The appendix contains guidelines and questions for budget request reviews issued by the Beaverton school district to its budget committee members. (MLF)

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Marilyn Pheasant

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Preface

Because of a decline in resources, it has become increasingly important for school districts to manage costs more effectively. In this Bulletin, the creative cost management practices of two school districts--Reedsport and Beaverton--are described. These districts, like most school districts, have used a variety of methods to "get more for the dollar."

Both districts have departed in various ways from their previous methods of operation. Both have controlled costs and increased revenues. Their experiences may assist other disticts in their own continuing efforts to control costs.

The Bulletins were written by Marilyn Pheasant, a native Oregonian, who has had broad experience in Colorado as a teacher, department chair, and interim principal. Prior to entering education, she was a junior accountant and office manager. She is a graduate research assistant for the Oregon School Study Council.

Philip K. Piele
Executive Secretary

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Introduction

Recession, inflation, declining enrollments, changing demographic factors, decreasing state and federal support, declining timber revenues, taxpayers resistance to funding operating levies or improving tax bases, and many other factors have combined to make it imperative that school districts in Oregon become increasingly cost efficient. (Although each term has a specialized meaning, cost effective, cost efficient, and cost control, unless otherwise specified, are used synonymously in this Bulletin.) Many of these economic factors have affected school districts all over the country. But Oregon school districts have been especially affected because they have less financial stability--particularly in state funding--than districts in many states. Several Oregon school districts indeed have had to close temporarily because they do not have an adequate tax base and because they have been unable to get operating levies passed.

This Bulletin focuses on two Oregon school districts that have been effective in managing their resources. Like many districts, they have increased their cost effectiveness through efforts to control costs and increase revenues. Reedsport, the subject of Part I, is a smaller district; Beaverton, the focus of Part II, is one of the largest districts in the state. It is hoped that their ideas and experiences will help other districts in their ongoing efforts to become more creatively cost efficient.

Part I
Reedsport School District

Introduction

Reedsport School District 105 is approximately 434 square miles in size; it has a population of approximately 5,000 with 3,600 registered voters. There are five communities within the district: Winchester Bay, Scottsburg, Gardiner, Smith River, and Reedsport. The district employs 79 teachers, 33 classified personnel, 5 principals and vice principals, and 4 district management personnel. Enrollment includes 586 elementary students, 206 middle school students, and 501 high school students, totalling 1,293. The district's operating budget is approximately $4,804,856 for the 1984-85 school year. The district's first tax base was passed in 1980; since then voters have chosen not to improve the tax base.

The district has lived on lean budgets and through hard times since 1980-81 when it experienced a severe financial setback. The former superintendent had made what was felt to be a conservative estimate of revenues. However, there were large revenue shortages primarily due to decreases in revenues from timber harvests, especially O & C (Oregon and California) payments. (O & C payments represent one half of the income from timber harvested on former O and C Railroad lands that were forfeited back to the federal government. The payments are made in lieu of taxes that would have been paid on the lands if they were still under private ownership.)

There were also cutbacks in Basic School Support, and federal funding was reduced. Further compounding the revenue shortfall was a dramatic increase in uncollected taxes. The school board and

administration had to retrench.

Taxpayers were unable to make up the shortage because of the economy. The largest mill in the area closed completely for 19 months. In a coastal area such as Reedsport, it is customary when the timber industry is down for many of the workers to turn to commercial fishing for employment. Fishing, too, was suffering; fisheries were depleted and were highly regulated. Unemployment rose to over 17 percent.

John Anttonen had come to Reedsport as superintendent from Kodiak, Alaska, during the 1980-81 school year. In his previous superintendency, North Slope oil money had been abundant. Shortly after Anttonen arrived, the bottom fell out of the district's revenue. School Board member Pierce Baymiller said that many people did not think Anttonen would last. But Anttonen believes in being proactive, rather than reactive. He instituted a goal-setting process that provided direction as the school board, budget committee, administration, and staff worked to balance the budget.

Because of the reductions in anticipated revenues, it was necessary to cut administrative, certified, and classified staff. One building was closed. Academic and vocational programs were combined; extracurricular athletic activities were curtailed and, in some instances, eliminated. Very few programs were cut. Those that were cut, such as the laundry program, did not effect the education of students. Class loads were not greatly increased because of changes in teacher assignments. "It was necessary to cut one million from a five million dollar budget for the 1981-82 school year," according to Nancy Heiligman, former District 105 business manager, now accounting services

coordinator for Eugene School District 4J.

First the district's goal setting and financial reporting will be discussed. Then a number of the district's activities, programs, and cost-saving procedures will be described.

Reedsport's Goal Setting and Fiscal Management

Goal Setting

The district plans the use of its funds based on the goal-setting process, which has been refined continually since it was established in 1980. Use of funds is based on district goals in three areas: instruction, finance, and maintenance. The goals become the cornerstones of how the district operates and where it is going. Because of goal setting, the district has been able to restore some of the extracurricular activities that had been eliminated; to a limited extent, Reedsport has been able to increase other programs while living within the 1980 tax base.

For each goal an implementation plan is developed to assist in the goal's attainment. The board receives periodic progress reports. Bob Townsend, high school vice principal currently on assignment to the district office, said, "I think because of the goal-setting process that John instigated, we started looking at creative ways of doing things in schools. We have expanded the program all during this time. It started off kind of minuscule; but nevertheless, it was proactive rather than reactive--reacting to criticism."

Cash Flow Projections

Sue Grassl, a member of the school board for the past nine years, said that Anttonen's fiscal management was instrumental in keeping the district operating, increasing programs, and not having to close the district's schools. The board had announced that it might have to close schools ten days early in 1981. However, this did not occur.

"I think as a board we know exactly where we are and that wasn't always true," Sue Grassl continued. "It (cash flow projections and other financial analysis) allows you to make plans. If you are making a plan, you need to know where you are."

Pierce Baymiller concurred: "The financial impact of every decision we make is right there at hand. When we make a decision, it is not a guessing game."

The district has been extremely careful in putting a lot of thought and a lot of time into projecting revenues, particularly revenues from tax sources, as Anttonen explains:

> I probably know more about revenues than in any superintendency that I ever had--sources of revenue and fluctuations of it. Our revenues (projections) have always been on the conservative side and have always been right on the money. This has helped us build cash carryovers which have assisted us every year for the past four years. We did this even during times of declining revenue. A good example would be our O&C (Oregon and California) funds that we get through the county. O&C is timber money from timber cut on O&C lands which first goes to the county, and the county commissioners disperse it. It has been decreasing. The first year I was here, 1980, it was about $280,000. This year it will be $70,000. But we have always been right on the money in our projections, and we have managed our budgets accordingly.

Heiligman also stressed that the first priority is to know revenues and the timing of cash flow. When she went to Reedsport as business manager in April 1981, she did a month-by-month history of what revenues had been, what the sources of revenue were, and when they were received. From this information, monthly revenue projections were made. She emphasized the need to communicate with the agencies on an ongoing basis so that possible changes in revenues can be identified as quickly as possible.

She suggests starting to watch tax collections as soon as they arrive in November and working closely with the county tax collector's office. Normally by the end of December, the big November 15th tax is in and processed. A comparison of the current and prior year's percentages of the tax levy collected is an important indicator in estimating current tax collection rates. It is also important to try to determine from the tax collector whether payment patterns are changing. Are people paying more slowly or unable to pay at all? The February 15th trimester collections must be analyzed carefully to validate collection estimates.

Other helpful advice on revenue projections has come from Milt Baum and Phil Rice of the State Department of Education and from Douglas County Superintendent Tom Huebner, and his business manager, Verna Delaney. 'We count a great deal on both of those agencies," Anttonen said.

Noel Aasen, business manager, said that "the School Board and all of us are able to look at the current month and see the actual revenue, expenditures, and balance. There are estimates based on the best knowledge that I had at the time of certain areas of the budget." Expenditures are also watched monthly. Any variance is analyzed to determine why and the information used to improve estimates.

One problem for the district has been an increase in uncollectable taxes. A few years ago the uncollectables were 8 percent, and now they are 14 percent. People don't usually lose their property; they have three years to pay their back taxes. Anttonen said, "They will pay eventually, but you really have to manage your prior years' taxes.

That's a guessing game with the taxpayers because you never know how they are going to pay. If you guess wrong on the uncollectables, you're in trouble." A district will receive less revenue in a year when uncollectables rise or if prior-year taxes come in slower than expected.

Compounding the problems with estimates are estimates of tax offsets. WOST (Western Oregon Severance Tax) is a timber revenue offset. The taxpayers pay the tax levy minus the offset. A greater severance tax offset lowers the total tax rate. On the other hand, the lower the offset, the higher the tax rate will be. A district's budget may be stable, yet offsets will cause the tax rate to rise or fall. Anttonen said that you must constantly keep on top of the offsets and make good guesses about them, but you never know the offset until after your budget is built. "It is a weird way to do business," he laments.

It is hard for taxpayers to understand why they wind up with a lower tax rate than the superintendent had estimated. Anttonen has written several newspaper articles on revenue that have helped to explain the situation to the public.

When building or cutting budgets and when considering program changes, the district analyzes costs. Direct, indirect, and hidden costs are studied. Hidden costs are very important, according to Heiligman. For example, a cutback in transportation or elimination of a kindergarten program will reduce Basic School Support the following year.

The cash flow projection is a helpful tool in another way, as Anttonen describes:

> It has eliminated the "found money" problem, which you have in some districts where all of a sudden some revenues pop up that

"nobody knows anything about." Well, of course everybody knows that there are revenues that change out there, but when it changes, it changes on a monthly basis. We report it on a monthly basis. This has totally eliminated the "found money" problem. This has been a big factor in this community because they had a "found money" problem. Some money appeared and it cost elections; in fact it probably cost some jobs in the long run. It was really a poor thing in terms of what happened to the people involved. I think it was an innocent kind of thing. But when the money appeared, it got everybody upset. Now there is a monthly revenue projection and if anybody wants to know exactly what the status of the revenues of the district is, all they have to do is come to a board meeting and pick up a revenue projection.

Increased Revenue Through Investment

A goal in Aasen's area of business management is to maximize the district's interest earning capability. This effort has resulted in a substantial increase in revenue for the district. Aasen said, "When I came, we changed the bill-paying procedure." The district now waits until the last possible day to send out checks.

Over time we find out how people cash their checks and how long it takes banks to clear them, so I am waiting longer and longer because of this knowledge before I cover the checks. The revenue projection--the cash flow report--has helped because I am always on top of how much money will be needed each month. We are getting the expenditure pattern down to a workable art. Therefore, I am keeping the money tied up in certificates of deposit for a longer period of time and am having the CD's come due right when I need the money. We are keeping no money in the checking account. We actually have negative balances by the books for days. This has helped a lot. It is a way of keeping the cash tied up in CD's.

The district banks locally. It has been tempting to use outside sources for money markets, but the local banks have been very helpful. For example, the few times that Aasen has misjudged check cashing patterns, the bank telephoned him that he was overdrawn, but they did not charge the district penalties or interest.

Self-Supporting Lunch Program

A board policy decision was made three years ago that the lunch programs would operate on the revenue that they produce. The district pared the lunch program's staff, took a good look at its commodities use, and told personnel they would have to operate it on the money coming in. The staff was able to do it. Antonnen said, "We have some really great managers of our lunch programs." Thelma Davis, manager of the Highland Elementary School lunch program, was recognized last year with a plaque and a $100.00 bonus. According to Antonnen,

> It's a funny word, but we are making a profit on the Highland Elementary School lunch program, which carries our other two schools. These schools do not run in the black because they do not have the participation that we have at the elementary level. We have a noon open campus, for instance, and many of our high school kids eat across the street and have a hamburger and a milkshake. But we have made the program more appealing, so we have increased the number of participants.

Aasen adds, "One of the secrets to making a lunch program a success is the cooperation of the cooks in using government commodities and making meals from commodity food attractive and tasty."

The high school chapter of the Future Business Leaders of America ran a survey of the types of meals that the students would eat at school. Chili and cinnamon rolls was number one. They definitely have it at least once a week. They have a simple repeating menu at the middle school and at the high school.

The board had stated a year ago that if the high school did not break even they would close the kitchen. But in December, the board reviewed the matter and decided that, even though it was not breaking even, it was not losing that much money. It is a great benefit to the 80 or 90 students that were eating there each day. A change of cooks at

the high school in December brought an increase in participation. Aasen said, "Both the ability of the cook and the cook's personality enter into a good program particularly at the high school."

Another factor contributing to the self-supporting lunch program is low pricing. The district's lunch prices are as follows: Adults $1.50; Elementary Students $ .75; Middle School Students $ .90; and High School Students $1.00.

Food waste has been minimized by allowing the students in the middle and high schools to choose what they will eat. At the elementary schools the cooks put everything on the students' plates.

Transportation Contracts

Transportation costs are a big factor in saving money for the district. Because of the locations of the schools, almost every student requires transportation, some over long distances. For example, one bus route goes 23 miles up the Smith River.

Reedsport has a transportation contract rather than providing the service through its own busing. Renewal of the contract is negotiated with the contractor biennially. The district has a good relationship with the contractor, which is nonunion. If the district had its own buses, the bus program staff would be part of the classified union. According to Heiligman and Aasen, it would cost the district at least one-third more to provide the same service the contractor provides.

User Fees and the Swimming Pool Contract

An enclosed swimming pool that is part of Highland Elementary School was a gift from a philantropist during the 1950s. It is used to

teach students to swim and to provide a recreation service for the community. During the budget crunch, a decision was made to close the pool during the summer and into the fall. But as teacher Keith Tymchuk said, "Especially here on the Oregon coast where we are so water oriented, the loss of the chance to teach young children to swim is kind of tragic because of the access to water sports."

So the district came up with the idea of contracting the management of the pool and charging reasonable users' fees. Now the pool is open from 5:00 a.m. to 9:00 p.m. throughout the year. Users' fees pay for a manager, life guards, and instructors during the summer and for extended hours during the school year.

Conflict Management

Anttonen emphasizes that "one thing that has allowed us to live on our money is to keep controversy to a minimum." The district has cultivated good relations with both the teachers and the classified employees unions.

> We work to do that by keeping them informed constantly. We pull no surprises on them. They get almost everything that the Board gets except what goes into executive session. I call them in when there is any issue that is going to have an impact on them, and sometimes I call them in to talk about things in general.

At the request of the classified employees association, this year's contract was decided without a negotiator. Because not having to pay a negotiator saved the district money, a little more was given into the employees' contract. Negotiations were resolved in about three meetings; typically, with outside negotiators, it takes about nine meetings. "They were very satisfied; we were very satisfied. It was

just a lack of controversy with management that helped bring about that status," stated Anttonen.

When asked whether this cooperation seems to have a lot to do with openness and communication, Anttonen replied:

> I think it helps. If you try a management style that keeps all the power with you or all the information with you, you tend to start to lose that openness; and you wind up with a less effective administration in the long run. There is not a lot to hide anyway."

Teachers negotiations are somewhat more formal. The district and the teachers each have a negotiator, "although that may change this year," Anttonen said, who pointed out that "the board feels more confident." Tymchuk, a teacher, agreed:

> I think that most of the teachers in the district, or at least the ones that I am around, see there is a real openness, and it is well received. Management is working with us rather than working against us to try to hold costs down. It is not an us-they proposition.

The board is a working board; they know what is going on in the district programs and meet with the staff on a regular basis. So although the board has had to make some hard decisions, their involvement has helped to keep controversy to a minimum. Whereas in the past there had been much controversy at board meetings and in the community, current board meetings are well run and well regulated. There have been no negative letters to the editor, and the superintendent and board members receive very few telephone calls. In Sue Grassl's words, "It has been very quiet."

Quasi-Administrative Positions, Internships, and Professional Development

When the Reedsport District had to cut back its expenditures three

years ago, one of the positions cut was the assistant superintendent. It was necessary to find ways to provide the services without an administrator to do the job. Not only were principals given additional administrative tasks, but certain teachers were given administrative tasks also. For example, Barbara Berry, a home economics teacher, was assigned vocational education director. While still teaching a full day's classes, she directs vocational education, reporting directly to the superintendent. An extraduty contract was negotiated with her for that responsibility. Under the same arrangement, Carol Schweitzer, a special education teacher, directs special education. Although these teachers have quasi-administrative roles, they remain members of the teachers' union.

The superintendent also started a process of administrative intern development. Liz Cowden, a teacher, was chosen to be an intern and now serves as vice principal at Highland Elementary.

Jake Caughell, athletic director and P.E. teacher, is now the vice principal intern at the high school, where he has taken over some of Bob Townsend's duties. Townsend was shifted to the district office to do curriculum coordination, which makes even more effective use of his time. Anttonen said, "We did that without further costs to the district. All we had to do was pick up Caughell's teaching time, and we did it internally by shifting some classes. So basically it gave us another administrator in central office for no additional money. And also, the intern, Caughell, I think is getting a great learning experience."

Teachers have done a lot of curriculum work beyond usual

expectations, according to Townsend.

> For instance, we have had an ongoing writing project for about three years. One of our English teachers, Karen Tibles, has taken the lead and has inservices with our whole staff. And that's with no pay. In the health curriculum area, we have had a number of teachers that have worked and developed some programs. It has been an extremely cooperative effort to take those tasks and run with them. By and large there is an administrator that is assigned to each area, but the teachers themselves have been the ones that are really taking the tasks and completing them.

Anttonen said that released time is their best tool for inservicing their staff. "Our good people on the staff inservice one another toward the goals that we have established. The only cost is the cost of substitutes." Money from basic skills grants (State Department of Education) and from the International Paper grant is allocated to released time.

Wellness

Through a wellnes program, the district has been able to reduce its insurance costs. Reedsport administrators encourage teachers to make wellness one of their major goals. Every Wednesday afternoon just after the students leave, teachers may leave the buildings to do a wellness activity such as swimming, racketball, or jogging. The district also had a five-day Stop Smoking Clinic that teachers could attend; substitutes were provided by the district.

For the past three years, inservices have been devoted to wellness and health. Because of its interest in this activity, the Reedsport Education Association puts on a "health" breakfast at the beginning of each school year. Stress reduction techniques are also an important part of the program. According to Anttonen, "This is hard to put a

dollar benefit on; but if you can flatten the use of health insurance a little bit, you save dollars over the long haul."

Tax Base Election

The Reedsport School district, like many others, has not been successful in getting voters to increase the tax base. The district based its planning for this year's tax base election on improvement in programs (stressing math, science, and computer training) and maintenance of facilities. A citizen's committee prepared a brochure that was mailed to every voter in the district (of course, no tax funds were used for this). Even though there was no controversy over the election, the tax base proposal was defeated by 180 votes. Board member Pierce Baymiller commented, "It's a vote against taxes; it's not a vote against the schools. They are saying 'you manage it' and we have demonstrated the ability to do that. So they see no reason to change it--to give us anything else."

Grassl, Baymiller, and Anttonen all expressed their concern that eventually they will have to cut programs. The action by the State Board of Education requiring the district to teach four years of English is a concern. Anttonen stated,

> We are barely covering the programs we have today. You can only go so far inhouse to save money and the margin gets narrower there. We were able to replace programs or keep them--like the traffic guard program. We had a person who was our traffic guard at about $6,000.00 a year. Now we have kids doing the traffic guard at zero dollars a year, but you can only go so far within the system before you have to drop a program or two.

Both board members agreed. Financial stability is an ongoing problem.

Conclusion

The Reedsport School District, through its goal-setting process and creative cost management, has continued to offer quality programs to its students. The people in the district express pride in their schools. The board, administration, and staff are committed to providing the best education possible for their students, but as funds become more limited, the task becomes more difficult.

Reedsport is blessed with high levels of commitment and creativity for meeting the challenges that lie ahead.

Part II
Beaverton School District

Introduction

Beaverton School District No. 48, west of Portland, is 57 square miles in size and includes parts of both Washington and Multnomah Counties. The district has 35 schools: 26 elementary schools, grades K-6; 6 intermediate schools, grades 7-9; and 3 high schools, grades 10-12. Total enrollment during the 1983-84 school year was 19,700; this included 9,000 elementary students, 5,500 intermediate students, and 5,200 high school students. The September 1984 enrollment is approximately 20,973, which includes 1,375 kindergarten students. Beaverton implemented the state-mandated kindergarten program in the 1984-85 school year.

Budget allocations for 1984-85 are for 1,895 personnel (full-time equivalent positions). This includes 1,240 teachers, librarians, and counselors; 566 classified support personnel; 56 principals and vice principals; and 33 central office managers.

Beaverton's general fund budget is $76,862,249 for the 1984-85 school year. A revised tax base was approved by the voters in 1980. Although the tax base was planned to meet the district's needs for only two years, the district has not had a voter-approved increase in the tax base since then.

Over the past several years, the district has given particular attention to cost savings and control measures. A broad range of strategies has been developed to contain costs and to increase revenues. In addition, the district has the problem of contending with maturing neighborhoods in some parts of the district and developing neighborhoods

in other parts. The district has closed six elementary schools and opened two new ones. These changes created some particularly difficult political problems in that the district had to solicit voter approval for new construction at the same time some voters were seeing schools in their neighborhoods closed.

Because of the district's long-range financial planning and forecasting, it has been able to plan for changing situations. For example, in 1983-84, the district faced an especially difficult challenge when preparing its budget, according to Superintendent Boyd Applegarth: "The state had experienced a prolonged economic recession, and strong public concern about the heavy reliance on property taxes was expressed in a November tax limitation vote." After the statewide tax limitation measure was defeated by less than 1 percent of the electorate, the district decided it was necessary to take action.

A district's tax base may be increased 6 percent each year without voter approval. The board and the budget committee both felt it was not prudent to do this. Instead, the general fund budget was increased 4.87 percent, supported by an increase in the tax base of only 2 percent--the smallest percentage increase since the district was consolidated in 1960. This increase in the tax base was reserved as an unappropriated balance to be used to help fund the kindergarten program in 1984-85.

Public response to this budgeting action was very positive; the community realized that the district was committed to cost control. The action did require that programs be reduced. Lacking sufficient revenues to maintain district programs and fund collective bargaining agreements, the district had to eliminate a number of personnel: 7

administrators, 15.7 teaching positions, and 25.9 classified personnel. In addition, various nonsalary budget items were eliminated.

On the revenue side, the district's equalization revenues from Basic School Support have declined from $5.3 million in 1979-80 to $1.2 million in 1983-84. Total Oregon Basic School Support has declined from $17,941,000 in 1979-80 to $14,720,000 in 1983-84. The state provides approximately 21.5 percent of the district's revenues.

Beaverton's cost control program has anticipated the declines in revenues and has assisted the district in providing quality programs more efficiently.

Beaverton's Cost Control Program

Basic elements of Beaverton's comprehensive cost control program are a long-term commitment and willingness to make an initial investment, the use of goals including long-range plans, a sound management system, up-to-date cost data, an annual review of programs, and a willingness to look at alternatives.

Long-Term Commitment and Initial Investment

James Harris, chairman of the Beaverton School Board, said when presenting a clinic at the 1984 National School Boards Association Convention, "First, you must have a strong school board commitment so that the administration knows you are committed to cost containment, not as a quick fix, but as a long-term approach. This is especially important when the political heat is applied."

Zeno Katterle, assistant superintendent for business, expresses the same need: "We thought it was important to get that kind of board commitment, not only to formulate an official position of the school district, but we also know that to take cost control steps is difficult from the standpoint of staff relationships, public relations, and political commitments." As might be expected, many of the things that the district has done have not been very popular with some people. Closing schools is a prime example of that. Also, decisions about where and from whom the district pruchases or how it structures its insurance program have important implications for relations with staff and community. The board's policies and support of these measures made it much easier for the administration to carry them out.

The board's policies are general directional statements, which are backed up by extensive administrative regulations. Katterle observes that "a large number of districts have bits and pieces of a comprehensive plan, but the parts have not been tied together as a general concept and then formalized."

Without the board's long-term commitment and willingness to make an initial investment, many of the district's cost efficient programs could not exist. For example, the district's risk managment program required substantial initial funding, but it has saved over a million dollars. As Katterle points out:

> Some people think that when you get into cost control you immediately reduce your costs. But what we are saying is not only is it a multiple-year proposition, but very often it can cost you more money in your first year or two than it cost to operate that same program the prior year. What you are trying to do is reduce your costs over a long period of time.

Districts need to be patient and realize that positive results often take at least two or three years.

A number of steps are involved in the process of effectively controlling costs. These steps include a description and review of current practice, consideration of alternatives, implementation of changes, and evaluation of results.

Goals and Long-Range Plans

The school board sets priorities or goals and adopts them into the long-range plan. According to Katterle, a district must know its primary mission and its priorities in order to be effective with cost control.

> Many of the choices you make have to do with relative importance. What really is more important than something

> else? This allows you to develop some criteria to decide how you are going to use your resources--where you are going to put your energies, and where you might put less effort. This helps make an effective cost-control program.

Katterle cautions against trying to do too many things and going too many directions, so the district does not develop a clear sense of what it is trying to do. "School districts historically have placated or satisfied certain political or staff concerns. They have spent money rather than support a well-considered list of priorities."

The Beaverton School Board has adopted a series of goal areas that define the district's priorities; these goals become the basis for the district's long-range plans. Goal Area No. 4 deals with financial management: "Focus primary attention on the use of the district's available financial resources through sound fiscal management, long-range financial strategies, energy conservation, and utilization of facilities." Using a type of management by objectives, the plan specifies subgoals for each school or department (including objectives strategies, or activities) and requires the writing of progress reports for accountability.

In 1981 the administration held a summer workshop for the board to develop strategies for financial stability. A report was prepared for the board that provided: (1) A review of the district's revenues and expenditures over the last three to five years; (2) a description of constraints and other factors that would influence the district's financial future; (3) a list of cost controls and efficiency improvements implemented by the district; and (4) a general description of several strategies to help assure financial stability.

This report was one of the preliminary steps the administration

took to try to provide the board with some background, so they could begin to formulate some positions about the district's financial management, particularly in the area of cost control. After this was completed, long-range plans and policy statements were developed. Financial strategies did not stop here.

In August 1983, another summer workshop was held to review and update the same kind of information provided in the 1981 report. At this workshop the district's financial condition was seen to be very favorable through 1985, despite the addition of the kindergarten program and its incumbent costs. The administration advised the district to take advantage of the time available over the next two years to plan and prepare for the changes that will occur after 1984-85. The report said, "The 1984-85 budget requires the depletion of $4.6 million in net working capital revenues. Without approval of additional levy authority, the 1985-86 year will require substantial program reductions." A shortfall of $5.5 million is projected for 1985-86.

Thus the workshop served as a way to renew the efforts already incorporated in the Long-Range Plan, as well as to outline additional activities for the next two years. Although the board and administration face impending problems, there is lead time available for planning.

Cost Control Program a Part of Sound Management System

"The different components of the management system are tied together," Katterle points out. Review of programs is tied to the budget planning and development process. The priorities and the Long-Range Plan are tied to the overall process. Reporting of those

activities is tied to the management system. The overall system has been designed so that the various parts reinforce each other. Cost control is not an isolated activity, but has been integrated, as it must be, into the overall management scheme. Managers have specific responsibilities that are related to the subgoals of the district, so the district's general goals become operationalized within the system.

Reports and Cost Data

The business office reports the district's financial position to the school board at every meeting; financial projections are provided once a month. A semiannual financial report reflects the financial position at midyear. Prior to year's end, a last official projection is given to the board. Then there is a report after the end of the year that completes the series of reports and lays the ground for the next period of reporting.

Cost information supports the cost control program. Stephen Gray, manager of accounting services, states that "there are three major themes in cost information. First is the design of the system. It is necessary to have a workable system that is designed properly so that you are able to go to the second step. This is to make comparisons, see various trends, and make projections for the future. Third is the application and use of the information."

The district's cost information system is defined by a program budgeting system. Financial reports specify not only dollar amounts but also contain narrative information describing highlights and the goals to be accomplished in the year.

Beaverton's cost control analyses are similar to private sector

cost accounting models. In addition to direct and indirect costs and the relationship between the two, an important consideration is "intangible costs." These costs include staff stress, withdrawal, and depression that may be reflected in sick pay. Such factors "may offset the savings from a cost control program. Be careful to include some estimate for intangible costs or be sure the savings will exceed the intangible costs," Gray advises.

District staff developed a series of ten-year historical expenditure and revenue patterns and identified where various changes occur in them, according to Gray. The data are displayed in a consistent format; percentages, rates, averages, and budget vs. actual information allow the historic information to be compared. These historical cost-and-revenue patterns are used to develop trend lines and projections of the future and to identify strengths and weaknesses in the district's financial system.

A year-end financial report, developed by the business office, provides a large amount of narration and is relatively easy for the lay person to understand. This report is prepared prior to the required Comprehensive Annual Financial Report (formerly called the Audit Report), which must follow standard accounting reporting requirements and is therefore beyond the average layperson's comprehension.

The readability and comprehensiveness of the Year-end Financial Report and Beaverton's other financial reporting practices have earned the district two awards each of the past four years. From the Government Finance Officers Association, it received a Certificate of Conformance in Financial Reporting. From the Association of School

Business Officials, it received a Certificate of Excellence in Financial Reporting. Besides recognizing the district's accounting practices, the awards can result in direct cost savings. Higher ratings are given for bonds and tax anticipation notes, thus reducing the interest costs for these instruments.

Readiness to Look at Alternatives

District policy requires that approximately one-third of the programs be reviewed every year. Program review reports and recommendations are received by the board annually.

Each time a program is reviewed (every three to five years), alternative means for providing the program are considered. "Any reasonable alternative is considered rather than rejecting it out of hand. We don't accept that, because we have done something one way for a long time, it just has to continue to be done that way," Katterle said.

Obviously, not all proposals for alternatives that would save money are accepted. There recently was a proposal to change the starting and ending times of the school day. This would have saved almost $140,000 in transportation costs. A survey of the community showed a large majority of the respondents opposed the change. Since most patrons did not want a change, it was not implemented. However, a large number of alternative proposals are implemented through the review process, as is indicated by the many cost effective measures that are discussed in the pages that follow.

The cost control program has been made a formal part of the district's operation. Board policy, the long-range plan, the budget

process, board reports, and management goals formally place the district on record that cost control is an ongoing expectation. This helps ensure cost control applications are made in the day-to-day operation of the district.

Cost Control and Support Services

Beaverton's administration has found that cost control steps--whether they have to do with obtaining cost control information, analyzing that information, assessing the amenability of a program to good cost control, or measuring the results--are easier to do with support programs than with instructional programs. Support programs lend themselves more easily to quantification than do instructional programs. It is easier to describe a program in costs terms in the transportation area than it is in language arts.

Katterle objects to the frequently heard comment that in education, unlike business, there are no quantifiable yardsticks.

> Part of the problem with this statement is that this tends to view all programs that a school district operates as though they are similar in character. That is simply not the case. We operate programs that are very, very similar, if not identical, to what you would find in the private sector. Food services, transportation, insurance--a good many support activities are just as amenable to quantification as programs in the private sector. That is not to suggest that cost control is not also applicable to instructional areas. It is. It is simply more difficult to do because the results are more difficult to measure. I think it is a mind set in part, too, or an attitude. It is not any secret that cost control and measurement has a large element of accountability associated with it. There are a number of people that shy away from being accountable. You have to put your reputation on the line, so to speak, if you are going to be measured.

The Beaverton School District has developed a large number of procedures to operate support programs with greater cost effectiveness. Some of these will now be described.

Food Services

Beaverton has gone to what it calls a "Shared Manager's Program."

This means that, instead of having a cafeteria manager in each of their elementary schools, managers are now responsible for more than one school. This has caused some changes in the staffing at the school itself, but it is more cost effective in the long term.

The district has also standardized its elementary school menus. The "offer" as opposed to the "serve" option is used at all grade levels to reduce food waste. In other words, students choose what they will have on their plates rather than having prepared plates served to them.

Transportation Services

In early 1983, as part of a budget reduction for the 1983-84 school year, routes were combined and reduced. Surveys of patrons had shown that if program cuts had to be made, transportation was a preferred area. Therefore, walking distances were extended, adding over 1,000 students to those who were no longer transported. All these changes eliminated the need for thirteen buses. Although the reductions displeased some parents, the district saved $500,000, a feat Jean Holt, eight-year member of the school board, cited in her report to the National School Boards Association. Additional savings will come from the district's decision to convert its bus fleet from gasoline to diesel engines. Although diesel engines require a higher initial investment, lower operating costs will yield savings over time.

Recently the school district installed pathways or extended sidewalks along several streets so that more elementary children could walk safely to school and not be bused. In some areas transportation had to be provided, not because of distance, but because there were no pathways or sidewalks, causing traffic hazards. Two legislative

sessions ago, the district helped sponsor state legislation that allows school districts to spend district funds for the improvement or extension of pathways and sidewalks off of school property. This can be done if it can be shown that the provision of the pathways and sidewalks will allow the district to reduce or cut its transportation costs. The district was also able to extend its bus replacement schedule.

Risk Management and Insurance

Beaverton is in its seventh year of self-insuring its Worker's Compensation Program, and it also self-insures selected property coverages. Fire insurance is maintained with high deductibles. Retrospective rating plans, based on actual loss experience, are used for employee medical and dental insurance and for disability insurance.

Gray stresses that in order to have a well-planned, coordinated program, the district must be flexible. The policy statement means the board has a long-term commitment to risk management, but also management is able to revise the structure of the program and maintain the best program possible.

School board policy requires the establishment of sufficient reserves to operate the district's risk managment program. "Without the reserves, the program could not exist," according to Gray. This approach to risk management requires extra commitment from the board, as Katterle explains:

> You get a real illustration here of the politics of the matter when you tell someone their school is going to close so that we can reduce our costs about $300,000. Then they look in the budget document, and they see a reserve sitting there for insurance purposes that is in excess of several million dollars. There is no immediate need for all of that money; it is a reserve backing up either current or potential

liabilities over a long period of time and supporting the kind of insurance program that we have. It is hard to withstand the pressure of holding the reserve and at the same time closing a school. People, in the short term, aren't terribly interested in insurance reserves; they are interested in keeping their school open.

There is the same problem during collective bargaining when employee groups demand increased salaries and benefits. The Beaverton School Board understood that it would face these kinds of pressures before it made the commitment to start a risk management program.

"Attempting to operate a short-term risk management program will not be cost effective," according to Gray. In order to start a risk management program, money must be spent to establish reserves and to hire staff. But these additional costs in the short term are well worth the long-term payoffs. Beaverton's program has saved the district over a million dollars in the first five years of operation. In addition, it also has a better insurance program and a safer environment for employees.

Once a cost effective risk management program has been in place for a few years, as the Beaverton program has, the board and community can see the actual payoff in many areas. Beaverton's program now enjoys strong support. However, if the board had been faced with difficult financial circumstances in the first year or two of the program, it would have been much more difficult to maintain the commitment. A district is in an awkward political position if it is investing in risk management and at the same time cutting back in some other areas.

Custodial Services

Beaverton has made several investments in purchasing and converting

equipment that allow cost savings. Last year some large carpet scrubbers and extractors were purchased for use in twenty-four elementary schools. With this equipment custodians completed in one and a half or two days tasks that had previously taken two or three weeks, thus freeing time to do other jobs.

Two of the district's minibuses were converted for use by custodial services. Equipped with scrubbers, water vacs, and spare equipment, the minibuses can be dispatched to schools that fall behind on their cleaning schedules due to budget reductions, thus allowing the buildings to be brought up to the district's standards.

The custodial services department is working to standardize products used by the custodians, especially waxes and cleansers. For instance, no-strip waxes are being tested. The emphasis is to reduce the number of hours necessary to keep buildings at an acceptable standard of cleanliness.

The district operates a custodial school to train custodians in efficient use of products and proper use of tools and machinery. Foremen are assisted in designing efficient cleaning routes, providing for preventative maintenance, and looking for other possible problems before they develop. These steps helped make it possible to reduce nine positions for 1984-85 with a cost reduction of $145,000.

Maintenance Department

The maintenance department has also purchased equipment with the intent of saving man-hours. Examples are more efficient mowers, sweepers, top dressers, fertilizer spreaders, and sprayers. The department also stopped purchasing fertilizer in sacks and now purchases

it in bulk. The sacks are more expensive and require more storage space, and it takes more time to transfer fertilizer from sack to the spreader. A hopper makes the transfer in less time.

Four of the district's minibuses were converted to maintenance vehicles. Equipment, parts, and tools are carried on these vehicles so that workmen do not have to return to the maintenance department so frequently for something that has been forgotten. Conversion costs are 10 percent of the cost of purchasing new vehicles.

The entire maintenance department has been inventoried, so there is less likelihood parts will become obsolete because they are riding around in maintenance vehicles. Inventory control also makes planning more efficient.

Records of individual building maintenance costs have been improved to show more exactly the man-hours spent and materials used. The department shares this information with the principals and also lets them know what work is left to be done. This information has greatly reduced complaints from principals and concerns that their work orders have been forgotten.

Collective Bargaining Agreements

The district has been careful to protect management prerogatives in all its collective bargaining agreements, so that the management can make cost effective decisions. For example, the district retains the right to name the insurance carriers for employee benefits as opposed to the carrier being stipulated in the collective bargaining agreement. Therefore, the district can make the best choice of a carrier in terms of both service and costs. The district's position is that the

collective bargaining agreement should specify which benefits or level of benefits should be provided, but not who should provide the benefits.

Beaverton also maintains the right to write employee job descriptions and make assignments without first having to call in the union. These prerogatives also make it easier to control costs.

School Closure

Before considering school closure, the Beaverton School District first looked to other alternatives, such as changing attendance boundary lines, using multiple classrooms, and shifting portable classrooms, to see if the district could be as cost effective. After other alternatives were carefully considered, six elementary schools were closed, with the objective of providing the same level of service for less money.

Gray noted that some critics of school closure claimed the money saved is routed to other programs, so there are no real dollar savings. But Beaverton actually reduced the budget. The district has saved the fixed and variable costs associated with each building, including the salaries and benefits of principal and support staff and such expenses as utilities, garbage, maintenance, supplies, and materials. Additional costs came from eliminating transportation and moving portable classrooms. Since the buildings are leased at a minimum break-even basis, no additional costs have been involved for operation and maintenance.

Although the communities where schools were closed were not happy, the district as a whole supported the cost control program because efficiency and cost savings were the objectives. The district has saved

$335,00 per year for each school closed, of a total of $2,010,000 in 1983-84 dollars. The cost savings continue each year.

Leasing of Sites and Facilities

Where declining enrollment has reduced the need for classroom space, the district has, in some instances, leased part of the building to an organization with a similar mission. The district and the organization then share the costs of operation, allowing the district to come closer to the average cost per student in a building with a larger student population. In other cases, the district is leasing the entire facility.

Energy Management

Beaverton has been involved in energy conservation for a number of years and has developed an energy conservation policy in two parts: the district as an energy educator and the disrict as an energy consumer. This dual focus has been found to be more effective than combining both education and consumption aspects into one program.

The district has an energy management incentive plan in which it pays back to an individual school a percentage of the amount saved through energy conservation measures.

In the secondary schools, mechanical systems to control the amount of fuel used are being replaced by computer controls, resulting in a substantial savings.

After a study to determine the most energy-efficient way to use buildings during the evening, the decision was made to consolidate activities wherever possible. The district has also begun to charge an

energy-user fee to help cover the cost when other organizations use the buildings.

Budget Committee

One of the more innovative steps the Beaverton School District has taken to ensure cost-effectiveness is the assigning of a "watchdog role" to the budget committee.

Besides the Budget Committee's statutory role--to review and eventually approve the budget--each committee member is assigned to review one or more programs of the school district. Committee members spend a considerable amount of time with management reviewing the program, becoming thoroughly familiar with it, and assuring themselves that it is financially sound. "Having a member of the public who has been appointed to the budget committee looking over an administrator's shoulder is a real impetus to provide a cost effective program," Katterle observes.

Katterle has prepared a handout for the budget committee members to provide them with guidelines and examples of questions to be raised. Budget committee members are asked to consider these when reviewing a program. This handout is included in the Appendix.

Seven of the committee's fourteen members are appointed by the school board for a three-year term. In addition to these seven voting members, seven nonvoting alternates are appointed by the board for a one-year term. Alternates receive all the materials, sit in on studies and discussions, and are included in all public hearings. If a voting member cannot attend a meeting, one of the alternates is appointed to vote for the absent member. Included in the appointments are a

representative of the local Chamber of Commerce and a high school student.

Intergovernmental Cooperation

Beaverton seeks cooperation with other governmental agencies for the purpose of sharing facilities, know-how, and district resources, if the result can be proved to be a cost-effective use of the taxpayers' money. Katterle points out that such cooperation calls for a compromise between the parties:

> Theoretically, intergovernmental cooperation is a fine idea. In practical terms, it is often a very difficult thing to achieve. This is particularly the case if the governments concerned don't perceive a real need to control costs and are not very cost conscientious. As long as you can afford to do it the way you want to do it - why compromise?

Beaverton cooperates most extensively with the Park and Recreation District, partly because the two agencies' boundaries are about the same. They jointly use a number of facilities and try to avoid duplication of services.

Public Relations

Beaverton's public relations program seeks to make the public aware of the fact that the district is involved in cost control. Members of the school board and budget committee are provided with materials that are excellent public relations tools. If someone says, "What are you doing to control the cost of education?", a Cost Control Summary provides that information. As the title suggests, this is a summary of cost control measures taken in the district. Board members say it puts them in a very good position, and the response is always positive. The Cost Control Summary is also made available to newspapers and other

media.

Board members also carry with them the Adopted Budget Fact Sheet and a foldout, "Quick Facts," which summarizes the fact sheet.

The school board and budget committee have made some decisions that have developed positive public relations, such as last year's adoption of a budget that increased the tax base only 2 percent over the previous year, instead of the legally allowable 6 percent. The board has also at times reduced the amount of a levy after the levy was approved by voters. The board has done this when the district's ending balance was sufficiently larger than had been estimated. It is not easy for a board to take those actions, because if resources are available, the tendency is to want to use them, especially if program cuts have been made. As Katterle comments:

> In this business there are always more needs than you can ever satisfy. It is a case of how far down the page you draw the line. I don't care what you increase your levy by, there would still be a group of folks who would want to spend more for something. You are not going to satisfy all the constituencies--staff or public.

The administration designs budget proposals with the expectation that actual expenditures will be 2 or 3 percent under the budget and actual revenues will be a similar percentage over budget. This is a strategy to avoid the possibility of deficit spending or having to curtail programs once the school year has begun. In addition, this results in a positive ending balance and provides the district with a favorable cash position to start the year.

Scale of Operations

Beaverton uses its scale of operations to be more competitive when

purchasing. In recent years district purchasers have become more aggressive in obtaining competitive bids and quotes.

It would be difficult for smaller districts to put together the kind of cost information that Beaverton has or to hire the specialized staff to derive the most benefit from economy of scale. It would not be feasible, for example, for a small district to have a custodian's school, although they could still provide custodians with training.

Conclusion

Beaverton School District, emphasizing commitment and investment, seeks to obtain the most value for each dollar. The district has invested heavily in programs such as risk management to save insurance costs, in people (trying to hire and train the best possible), and in equipment in order to save labor costs. The district's cost accounting is sophisticated and precise.

Beaverton, in terms of average expenditures per pupil, still ranks in the upper third. Katterle says, "People might look at that and say your costs really aren't low comparably. Our point is that we think we get a lot more for the dollar." And they do!

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February 23, 1984

Appendix

TO: Beaverton School District
Budget Committee Members

FROM: Zeno B. Katterle, Assistant Superintendent of Business

RE: SUGGESTED GUIDELINES AND QUESTIONS FOR BUDGET REQUEST REVIEW

Two basic questions need to be answered when reviewing budget requests:

1. Are the funds being efficiently used today?

2. What is a reasonable level of expenditure for next year?

The following guidelines or questions are designed to help you with your assignment of reviewing the budget development of one of the District's programs. Where appropriate, you may use some or all of the listed questions. These questions were developed over the last two years and have proved helpful in reviewing budget requests.

1. Assessment of prior year budget activities.

   a. What level of actual expenditures are currently projected as compared to the appropriations?

   b. Were objectives realistic; can they be achieved? If not, why not?

   c. What effect will the actual experience have on the level of funds requested for the budget?

   d. Are you satisfied that the planning for the budget requests was adequate, based on actual experience? If not, what steps are being taken to improve the process for the next year's budget?

2. Administrative processes used to develop the budget.

   a. Are adequate guidelines provided to assist cost center managers in developing their budgets?

   b. Are program or activity objectives established on all requests for funds? Can the stated objectives be measured and are there plans to do so?

   c. Who reviews and approves the proposals? Is the level of approval consistent with the amount of funds being requested?

3. Major constraints or factors influencing the budget.

   a. Are the continuing programs consistent with the community needs and the School Board policies?

   b. How has inflation affected costs?

   c. Are there new statutory or regulatory requirements?

   d. What are the effects of employee contracts?

   e. Is the specific program serving more staff or students?

4. Effect of District long range plans and department priorities.

   a. Have new programs or major additions to existing programs been requested?

   b. How was the need identified? Is it consistent with the policies and directions of the School Board?

   c. Has adequate consideration been given to development, implementation, and ongoing costs?

   d. Have adequate objectives been established and approved? Do objectives appear attainable? What means will be used to access objectives?

5. Program costs.

   a. Do requested appropriations appear consistent with past history, changes in objectives, economic factors, etc.?

   b. Does the distribution of funds by cost center appear consistent with prior years' and/or School Board policies?

   c. What steps are being planned to improve the efficiency of operations?

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